

VZCZCXYZ0012
OO RUEHWEB

DE RUEHJA #0895/01 2440646
ZNR UUUUU ZZH
O 010646Z SEP 06
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 9452

UNCLAS JAKARTA 010895

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR EB/CBA SMITH-NISSLEY

E.O. 12958: N/A
TAGS: [BEXP](#) [EINV](#) [ELAB](#) [ETRD](#) [KSEP](#) [SENV](#) [ID](#)

SUBJECT: DUE DILIGENCE FOR CORPORATE EXCELLENCE AWARD
NOMINEE CHEVRON INDONESIA

REF: A) STATE 133146

11. (SBU) Summary. We are not aware of any significant embarrassment likely to arise should Chevron Indonesia receive the 2006 Award for Corporate Excellence. Chevron has been an outstanding corporate citizen and contributed greatly to community development in Indonesia. The largest crude oil producer in Indonesia, Chevron's Indonesian operations provide several hundred jobs in the U.S. both at its own facilities and those of its contractors. Chevron, like other large foreign companies operating in Indonesia, has been the target of labor unrest in the past, the most significant of which was a 2002-3 labor dispute over contract labor issues, now long since resolved. End Summary.

12. In response to Ref A, we reviewed our files on Chevron, interviewed Jakarta-based Chevron officials, and contacted local representatives of the American Center for International Labor Solidarity (ACILS). Based on those actions, we provide the following information keyed to Ref A questions.

A) Could there possibly be any downside or embarrassment caused by the selection of the nominee?

Post is not aware of any high profile lawsuits or other negative actions against Chevron Indonesia, which could cause embarrassment. However, Chevron's local operating unit has been the target of labor protests in the past, the most recent of which was in 2003 (see answer to question D below).

Chevron is widely recognized in Indonesia as a top tier company based on its employment record, contribution to the local and national economies, development of the country's people and resources, and exceptional response to natural disasters such as the tsunami in Aceh in December 2004. Chevron continues to donate supplies and housing assistance to employees and communities in the affected areas in Aceh.

Chevron has a strong community development program. In addition to the community development projects cited in our nomination cable, Chevron has offered the Caltex Riau Scholarship program to senior high school graduates since 2001, selecting the top 60 students each year. It also provides tuition for graduate education and apprenticeships for 100 university graduates, as well as training for teachers. Chevron renovated Meranti Pandak Village in Riau Province, home to 1500 residents, repairing and replacing housing, improving sanitation and water supply. Chevron has also contributed to infrastructure development, such as the Siak River Bridge and the Pekanbaru-Dumai highway in Sumatra.

B) Do you have any information concerning job creation in the U.S. resulting from the operations of the company you nominated?

Chevron pumps 50 percent of Indonesia's crude oil at its Duri and Minas fields in Sumatra, operates a 55 MW geothermal power plant at Darajat in West Java, and has a 25-percent interest in a 2.5 trillion cubic feet gas development in the Natuna Sea. In addition to the approximately 20,000 employees of Chevron Indonesia and its contractors, hundreds of additional employees at Chevron USA, or its contractors and vendor companies in the U.S., support the company's operations on a full-time basis. The nature of these jobs includes high tech computing and information technology, engineering design, facilities construction (especially in Louisiana), and oil field and drilling support services.

C) What is your assessment of the company's trade and investment activities with regard to helping stimulate economic growth in the U.S. and increasing American exports (what is the U.S. content of its products)?

In addition to creating high-paying support jobs in the U.S., Chevron's exploration and production activities contribute directly to bringing important supplies of crude oil and natural gas into the marketplace.

D) What is the state of labor conditions in the company's facilities and are workers unionized?

Union members do work for Chevron in Indonesia. Chevron, like many of the large energy companies in Indonesia,

indirectly employs the majority of its work force through independent contractors. In 2002-03, Chevron-Caltex experienced significant labor unrest related to a court case in which a group of security guards charged that the firm had promised to convert them to permanent employees, but reneged. Despite what appeared to be a strong case, Chevron-Caltex lost in the Indonesian Supreme Court, and eventually settled with the workers. The Jakarta ACILS office told us it has received complaints from Caltex contract workers over allegedly poor working conditions, and alleged efforts by Chevron-Caltex to frequently roll over contracts to discourage unionization. However, neither ACILS nor we have confirmed any of these allegations. The situation calmed significantly by 2004, when Chevron completed a long-overdue downsizing of its direct-hire workforce through a voluntary retirement program. Under this program, Chevron reduced its workforce by 17 percent without strikes or stoppages. Neither we nor ACILS-Jakarta have seen any change in this quiescent situation during 2005 and 2006. ACILS-Jakarta was continuing to consult with its affiliate in Jambi and unable to meet our deadline, however.

It is important to note that foreign firms were frequent targets of labor unrest from 2000-04 in Indonesia's newly liberalized labor relations system, in large part because of the perception that they are more concerned about their corporate reputation than Indonesian companies and have deeper pockets. We have seen no credible evidence that western firms, including Chevron, in general treat their employees unfairly. In fact, the opposite is true-salaries, benefits, and working conditions tend to be the best in western firms. Chevron is no exception to this rule, and has in general enjoyed excellent relations with its 98-percent Indonesian workforce. Another issue is that the hiring of contract workers and severance benefits are a source of ambiguity in Indonesia labor law, and labor issues have been one of the top complaints of foreign companies operating in Indonesia. The GOI has acknowledged the problem, and has committed to revising key severance pay regulations. The International Finance Corporation in 2005 ranked Indonesia as one of the most "business unfriendly" countries in the world regarding the hiring and firing of

workers with the highest costs in the region, equal to 145 weeks of salary (compared to 90 in China, 65 in Malaysia 39 in Cambodia and 4 in Singapore).

1F. Please Confirm that the Chief of Mission and others involved in the nominating process do not hold shares of the stock or have other financial interests in the company.

No senior embassy personnel involved in the nominating process own Chevron stock directly. However, as the twelfth largest U.S. company by market cap, Chevron occupies an important position in the TSP C Fund, S&P 500-based index funds, and other large cap mutual funds.

PASCOE